The African Economy

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1. An overview

In the ***first ten-fifteen years after independence***, in a context of strong expansion of the world economy, African per capita income rose and ***living conditions improved***. Although enhancing its situation, Africa could ***not catch-up*** with the rest of the world and the incomes gap widened. Indeed, between 1961-63 and 1973-75 income per capita in Sub-Saharan Africa (SSA) increased at 2.3% per year, compared to a yearly world growth rate of 2.8%.

Since the mid-***seventies*** and particularly the early ***eighties***, the situation ***deteriorated dramatically*** (Graph 1). In the fifteen years 1980-1995, per capita income in Sub-Saharan countries increased only three times. In 1995-97 its GDP per capita was 16% lower than in 1974-76. In this same period, North Africa and the Middle East per capita income rose 7% and that of the global World by 27%[2].

In the last 25 years SSA has had also by far the ***worst performance*** among developing country regions. The situation has improved since the mid-nineties, but in 1998 and 1999 GDP still rose by less than population. Income per capita is expected to grow again this year (2000) and next, owing to a large extent to the strengthening of the world economy.

However, the global figures cancel out ***wide different performances*** between groups of countries. For instance, the nine fastest growing economies out of the 47 SSA countries achieved annual average growth of 3.1% over the latest 30 years. In contrast, in the nine slowest growing economies income contracted at 2% per year on average, owing partly to armed conflicts and political instability (IMF, 1999).

The ***improvement*** in the second half of the nineties appears to reflect at least in part ***better economic policies*** and in some cases an easing or the end or armed conflicts (Angola, Ethiopia, Mozambique, Rwanda).

African economies remain much ***vulnerable*** to external shocks and in particular to ***commodity price cycles***. Hence current performance is also much affected by the developments in the terms of trade. These have been evolving unfavourably for most African countries (particularly SSA). Countries like Mali, Burkina Faso, Ghana, Chad, Sudan, Ethiopia, Uganda and Zambia

[*] European Commission. This text is based on internal EC, Development Directorate, notes. However, the views expressed here are the sole responsibility of the author.

[2] In annual growth rates the figures are: -0.8% for SSA, 0.3% for the Middle East and North Africa and 1.1% for the World.

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have been severely hit by the oil price rises of 1999/2000 and the depressed prices of their main export commodities.

For the least developed countries the ***impact of oil price rises*** has not changed much since the seventies, as in contrast with the most developed countries, these economies have barely reduced their dependence from oil in the last few decades.

Another external shock which has been playing a positive role the economic activity of fifteen countries francophone countries is the ***depreciation of the CFA Franc***, in real effective terms, linked as it is to the French Franc.

A key general issue is whether the improvement in the last few years has the momentum to lead to strong and sustained economic growth. It is argued here that, on current trends this will not be the case. The current phase of higher growth is associated with a "bounce-back" effect stemming from the removal of grossly damaging policies that increase productivity. However, current ***strong economic growth is unsustainable on current investment rates***. Total investment growth rose from -3.5% in 1980-90 to 4.3% in 1990-97, but this still compares unfavourably with a growth rate of 7.2% for low income countries as a whole. Hence, although the performance of a number of SSA countries in terms of GDP growth has come closer to that of the East Asia prior to the recent crisis, their investment rates, close to 20% of GDP, are still around 9 percentage points below East Asia.

An interesting question is why in the post-independence period Africa has performed relatively better than since the mid-seventies/early eighties. At this stage, it should be simply underlined that Africa has performed always poorer since the sixties than the rest of the world. This is largely due to wrong policies. The growing detrimental impact of the ***anti-market policies*** is at the origin of their ***cumulating negative effects*** on economic activity. This is characteristic of both import-substitution policies and of the centralised regimes: at first their effect is not very accentuated, than it becomes more and more damaging. That is particularly the case for small economies like most African countries. That explains the increasing poorer relative performance of the African continent from the sixties to the seventies and the eighties.

The ***improvement*** in the conduct of ***economic policy*** since the ***nineties*** occurred under the pressure of big disaster and the major changes in world politics. Then the continent started to turn the back to import substitution and other state directed related policies. The positive impact of this has just began to show up, although as mentioned above, more needs to be done to keep investment at a level consistent with strong economic growth[3]. Otherwise progress in reducing poverty can not go much farther.

It will be seen in this respect that there is a ***case for*** higher aid support distinct from the traditional argument of conditionality aid, which associates aid with the need to induce the countries to carry out sound policy reforms. In this case, it is the need to temporarily ***support public investment***, until the conditions for an enough rise in private investment are set in place, which is at stake. Hence, in this perspective, aid should not be discontinued in the short/medium

[3] As will be seen later, high investment is a necessary but not sufficient requirement for a sustained strong economic growth.

term to countries implementing sound economic policies with get rising income but which still suffer from a lack of private investment (Collier, 1999).

A much heat debated issue concerns aid. Africa has been a major receiver of official development assistance (ODA) and has performed poorer than other regions. This has contributed to raise among the public at large an association between debt and negative incentives of aid. This could hence justify the downward trend in ODA that has been taking place since the eighties. However, it is argued here that ***aid is not bad in itself*** and also that that downward trend is not necessarily irreversible. The main argument in this regard is that aid contributes to boost economic growth provided that the economic ***environment*** is ***sound***. As in the past that has not been the case in many situations, it is no wonder that aid has been ineffective on average. A corollary of most recent research is that aid should be concentrated in countries with an adequate performance. This is also the case with the new EC orientations as embodied in the future ACP-EU convention.

2. Explaining African very bad performance till the mid nineties

In the post-independence period, in most African countries power was taken over by an urban elite much dissociated from the interests and needs of the vast majority of the population, who lived and lives in rural areas. These elites ran those countries in an undemocratic way, feeling responsible to their narrow urban constituencies and not to the population as a whole (Collier and Gunning, 1999 and Bates, 1981).

The policies run were hence designed primarily to meet the interests of those narrow groups. Typically, these policies took the characteristics of import-substitution models (ISM). These included capital controls and an overvalued exchange rate, much State control of economic activity with a proliferation of loss-making public enterprises and poor investment choices. Agricultural production was penalised through taxes on farming and food subsidisation. Policies aimed at import substitution also included extensive price controls, industry protection and import subsidisation. These policies usually led to growing budget deficits, increasing inflationary pressures and a loss of international competitiveness.

Given the undemocratic nature of most of those governments, partly supported also by the cold-war external politics of some developed countries, governments did not feel under threat by the bad impact of their policies on the majority of population, particularly farmers. What mattered were the interests of the urban elites which was favoured, among others, by jobs in public companies and in the civil service and by cheap food and imports. The nature of power was also conducive to corruption, a deterioration of the legal framework and bad governance in general. In this sense, the wave of democratisation since the early nineties, following the end of the cold war, has the germ to help to force economic policies to pay more attention to the interests of the whole population[4].

[4] Hopefully a number of recent set-backs to the democratisation process will not unwrap the general positive trend set in motion since the early nineties.

In the seventies and the eighties both external and internal shocks contributed to turn the economies of African countries into a mess. First, with the two first oil price shocks, non-oil exporting countries suffered much with the rise in oil prices and the decline in export prices. Second, severe droughts reduced production and income. Third, rapid population increase reduced the ratio between labour force to total population, making it harder to feed and grow the whole population. These exogenous shocks were compounded by a whole series of factors associated with the neglect of human resource development and of the interests of large shares of the population, deteriorating infrastructure, bad policies and outbursts of ethnic conflict and political instability.

In an attempt to shore up their living standards, many governments undertook extensive external borrowing for consumption and investment. However, given the very low and decreasing returns of public investment and public outlays in general, in most cases their external debt burdens became unsustainable and arrears accumulated. This created a major constraint to development for such countries in the course of the last twenty years. The recent HIPC initiative, to which the EU is a major contributor, is now expected to ease significantly their debt burden[5].

All those negative factors interacted with one another leading to a deteriorating snowball effect. Bad economic policies, corruption, very poor legal systems, political instability and armed conflicts, shrinking economic growth, growing external debt, led to deteriorating prospects for investment, domestic and external. Human resources and capital flew the African countries and this further aggravated the situation.

It has been sometimes claimed that Africa is a unique case, given: its climate and geography (14 landlocked countries with a population amounting to about one third of the continent); its high dependency on natural resources with the consequent Dutch-disease costs to long-term growth; the colonial history; its ethnic and tribal divisions; and its particular exposition to serious illness and the associated lower life expectancy. This view seemed to be for a certain time supported by a non-explained residual in cross-country regressions that attempted to explain economic growth among the various regions of the world. However, most recently, it has been shown that Africa's slow growth can be explained by the same variables (e.g. economic policy, initial conditions, demography and physical geography) that account well for other developing countries (e.g., Sachs and Warner, 1997).

A first corollary of this non-specificity of the African economy is that there is no need for a special "African" theory. A second one is that, although the natural, geographical and historic unfavourable factors can not be dismissed, there is room for a more optimistic view about Africa's future than that of just seeing Africa condemned to slow growth and poverty by those largely exogenous factors.

There are indeed two main conclusions from the most recent econometric studies in this area (Sachs and Warner (1997) and Collier (1999)). First, that natural factors are a partial handicap for Africa, in that, ceteris paribus, they can contribute for a slower growth in the long term than other regions of the World. Second, more important, is the fact that poor economic policies and

[5] A less optimistic partial evaluation of the impact of the HIPC initiative can be found in Bonaglia et al (2000).

institutions explain most African backwardness. Hence, with better policies and institutions, Africa can improve much its living standards. Catching up with the rest of the world is hence not straightway out of reach for Africa, at least in a medium-term perspective. This waters down most of the so-called growth pessimism on Africa, particularly on SSA.

Among the policy factors, there is at present a wide consensus that lack of openness to the outside world has been one major damaging element of African economic development. A higher role for openness in econometric studies has also helped to get rid of the residual that was interpreted as the Africa's special case.

Africa's closure to the external world has two dimensions: a geographical one and a trade and financial dimension. It is undeniable that there are significant geographical barriers for many land-locked countries in Africa. Very bad roads, border controls and straight away robbery compound the geographical barriers. Moreover, potential exporters in Africa typically faced very high trade barriers on exports and quotas in importing intermediate inputs or equipment goods. Still, exchange currency was rationed and the currency overvalued, with the entire well-known associated distortions and impediments to an efficient resource allocation.

Another kind of institutional distortion concerns the export marketing boards. The export marketing boards typically evolved into institutions that bought agricultural products at very low prices and sold them at much higher prices. They provided farmers some price guarantee but at a high cost. This was essentially equivalent to high export prices. As the Minister of Finance, Planning and Economic Development of Uganda recently put it[6]: "the liberalisation of a great part of coffee exports in 1993-94 improved much the situation of farmers, as the market trade board contributed to their poverty". However, the discontinuity of the market boards left a vacuum in some countries, particularly at a time when commodity prices tend to fluctuate more with globalisation. Market-based insurance mechanisms currently on try could improve producer's prospects in this respect[7].

3. The improvements of the nineties

As it was already mentioned, the conduct of economic policy in Africa improved markedly since the early nineties and a bettering in economic indicators began to show up since the midst of the decade. After having declined almost uninterruptedly since the late seventies, GDP per capita in SSA rose for three years in a row in 1995-97 and is expected to resume growing again this year[8]. In Middle East and North Africa PIB rose also faster than population in 1996 and 1997. Inflation fell dramatically in SSA from 47% in 1994 to 10% in 1998 (6.8% in Africa

[6] Statement made during the First International Forum on African Perspectives, organised jointly by the African Developed Bank and the OECD Development Centre in Paris, the 4 February 2000.

[7] For details how this could work see the publication from the International Task Force on Commodity Risk Management led by the World Bank (1999).

[8] To notice that if South Africa and Nigeria, which together account for about 50% of SSA GDP, were excluded from the sample, the economic growth would be somewhat higher than the figures presented for the whole SSA region.

as a whole) and the overall fiscal deficit (excluding grants) dropped from almost 9% in 1992 to less than 5% in 1998. The improvements in the government accounts were due to both a reduction in public expenditure (from 29% of GDP in 1992 to 27% in 1998) and to a rise in revenue, which, excluding grants, rose from 20,5% of GDP in the first half of the nineties to 22% of GDP in 1998.

These macro-economic improvements, alongside liberalisation reforms in the markets for goods and services, mirror the trend developments in most countries all around the world. However, the fact that they have taken place in Africa is a positive sign illustrating that Africa is not impervious to the positive trends in the more developed countries. In addition, it is clear that the improvement in results stems from better policies and not from exogenous factors. In turn, the slow down in economic growth in 1998 and 1999 has to do mainly with the impact of the slowdown in the world economy in the wake of the international financial crisis, the associated fall in a number of commodity prices, particularly of oil prices for the exporting countries, the impact of El Niño and, for South Africa, the direct impact of the international financial crises[9].

Africa prospects are for a rise in per capita income this year and next under the effect of a buoyant external demand stemming from the booming world economy. Some dampening effect on these more favourable prospects springs from the impact of much higher oil prices, which are more damaging for oil-importing developing economies than for developed nations which in the last few decades have diversified more their economies[10]. In the opposite way, a positive external shock on growth for some fifteen mainly francophone countries derives from the depreciation of the Franc CFA in real effective terms, alongside with the Euro/French franc fortunes.

At the level of market reforms, great progress has been made in the nineties, as identified for instance by Bonaglia et al (2000), Hernández-Catá (1999), or in IMF (1999). These structural reforms include: price controls, which have been abolished or liberalised; a number of inefficient public sector monopolies that have been dismantled and many state enterprises privatised; non tariff barriers have been eliminated and import duties lowered; exchange rates have been freed and unified; direct controls on bank credit have been eliminated and market-determined interest rates established.

An especially relevant case concerned the devaluation of the CFA franc in early 1994. The overvaluation of the currency was hitting severely the external competitiveness of the 13 countries that by then constituted the zone. Hence, the correction of that very high overvaluation contributed much to the sharp improvement in the external accounts and the strong economic growth in those countries.

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[9] SSA suffered less than other regions from the international, mainly Asian, financial crises. This is due to the lower degree of financial development of the Continent, which prevented a significant contagion effect (see for instance Harris, 1999). Only South Africa was directly fully blown by the turmoil in international financial markets. The rest of SSA was mainly hit by lower economic growth world-while, which impacted negatively on their external demand and the terms of trade.

[10] Some African countries (Nigeria, Gabon, Republic of Congo and Angola) are oil-exporting and are reaping great benefits from the rise in oil prices. These windfall gains should be used more to reduce government imbalances than in consumption and so exacerbate the boom cycle.

It is not easy to quantify structural reforms. Bonaglia et al (2000) attempted recently to provide a global quantification of structural reforms in Africa looking at five areas: trade reform, financial liberalisation, tax reform, liberalisation of external capital transactions and privatisation. On the basis of the five partial indexes, they then built up a global index.

According to their research, considerable progress[11] in structural reform took place in Africa from 1985 to 1997 but with significant differences across countries and areas. Less progress and higher variability between countries is observed on privatisation and international financial liberalisation. As to countries, whereas in 1985 only Mauritius and South Africa had adopted a relatively neutral stance among the 23 countries considered, most progress has since been done by Uganda, Ghana, Mauritius, Senegal, Kenya and Zimbawe.

The inclusion in the group of these two latter countries does not fit well with the observed positive correlation between structural reforms and economic performance. This could be partly due to one criticism of the model: that it does not include indicators of macroeconomic policy. It is well known that well designed structural reforms in an unhealthy macroeconomic context may play a limited role or even, in certain cases, have a negative macroeconomic impact (at it comes out from the theory of second best). One could also add that the same applies with good governance indicators, which are captured only partially through structural reform indicators. This confirms the results of a number of studies that macro economic reforms, structural reforms, governance and political reforms tend to reinforce one another, be in the right or the wrong way.

Despite the significant improvements in both economic reform and macroeconomic results in the nineties, this does not seem to be sufficient to set the SSA economies in a sustained path of strong economic growth. Berthélemy and Söderling (2000) ran a number of simulations and came to this kind of conclusion. They defined an emerging economy as one that can sustain a dynamic growth process for many years, so that in about two decades GDP per capita can at least double.

In SSA, a doubling of per capita GDP would still not provide those countries with a level of per capita income comparable to those of the emerging East Asian countries. However, that would allow the most successful countries to become lower middle income countries. This would ease them to start eradicating poverty and getting the preconditions for catching up to higher levels of development, as has been pointed out by the theories of the convergence clubs.

Their analysis was carried out with the support of a small econometric model incorporating a production function, an investment function and a balance-of-payments identity, estimated for a sample of 27 African countries in the period 1960-1996. With this model, the authors simulated a number of country-specific alternative growth scenarios for six countries: Burkina Faso, Côte d'Ivoire, Ghana, Mali, Tanzania and Uganda. Assuming a base-line scenario of continuation of current trends, by 2020 no one of the six countries would have doubled its GDP per capita of 1996. Uganda would reach the highest GDP per capita growth rate (2.6%) owing to its strong commitment to education and greater progress in terms of diversification.

[11] Progress is seen as steps towards a more neutral, less interventionist, policy.

Only assuming a high scenario of acceleration of structural change (human capital accumulation, development of exports and diversification of the economy), can these economies double their GDP per capita by year 2020.

The authors simulated the effect of a number of factors, which have an impact on structural change. These include: education, openness to trade and diversification of the economy, aid efficiency and, from the point of view of donors, debt relief and access to their markets for manufactured goods.

Diversification, which needs to be driven by the private sector, is seen as the result of high quality production factors, a macroeconomic climate favourable to investment and institutions favourable to risk taking. The model estimates the cumulated impact of diversification at around 5% of per capita GDP by 2020.

Debt relief is assessed to have limited direct effects. The direct impact of the Cologne initiative (HIPC) is estimated to account from 3% to 13% (Tanzania) in terms of the equivalent supplementary resource flows of the six countries studied (assuming aid flows would rise at 2.5% per year).

In contrast, aid efficiency plays a remarkable role: the impact of a more efficient aid is tantamount to the impact of a rough doubling in aid volume if aid efficiency is not raised. This leads to the prescription of concentrating aid more on more effective users, in line with the EC new orientations.

In a nutshell: despite the comprehensive reforms which have been undertaken, there is still much to be done in Africa, as the continent lags much behind other developing countries and there are wide differences between countries. In any case, Africa much needs intra-continent good examples that can be replicated, as it has taken place in Asia[12]

4. Aid and investment

For a number of years official aid to developing countries has lost the support of politicians and public opinion in the developed world. Accordingly, aid has been falling in percentage of GDP, getting farther away from the agreed target of 0.7% of GDP (table 1).

Table 1: Net Official Development Assistance from DAC countries to Developing Countries and Multilateral Organisations (in percent of GDP)

[12] The demonstration effects are generally seen as important to show the right way to laggards. For instance, Vietnam in the eighties did not pursue a market-oriented economic policy. However, the good examples of most other countries in the region contributed to induce the country to pursue sounder economic policies. A partially dissent view on the importance on this demonstration effect in Africa is presented in Sachs and Warner (1997). These authors did not find that neighbourhood effects (growth rates of contiguous counties, which in any case is not exactly the same thing as the demonstration effect) play a role in explaining an individual country's growth.

	1982-83 average	1987-88 average	1997-98 average	1996	1997	1998
Total DAC	0.35	0.33	0.23	0.25	0.22	0.24
EU Members	0.45	0.44	0.33	0.37	0.33	0.33

Source : OECD 2000, 1999 DAC Journal, Development Co-operation.

A number of questions can be raised in this respect, e.g., is this an ineluctable trend to continue in the foreseeable future? and what are the consequences for the poor countries? Collier 1999) addresses these and other questions and draws more optimistic answers on both the need for and the impact of aid than today's common view.

He identifies five arguments which together can be labelled as the "aid dependency school": i) Africa has grown more slowly than other continents because it has received more aid; ii) aid creates dependency like many households in developed countries become dependent on social support; iii) poor countries should aim at attracting private capital rather than aid; iv) aid flows are unstable, and as such they are a source of instability that hinders the conduct of economic policy and development; v) and fifth, that aid is in any case doomed, so countries can not rely on it for securing their development.

Collier presents evidence that makes the picture more favourable on all those five accounts. The first aspect is crucial, as it concerns the efficiency of aid. It is true that on average aid has been ineffective, but this is because it has been mainly applied in poor environments. It is today well recognised that, subject to an adequate policy environment, aid is supportive of economic growth[13]. The cohesion EU countries, particularly Ireland, are a good case in point.

As to the issue of the likeness between aid and social security support to households, the similarity does not hold. Indeed, the amount of aid in percentage of GDP is much smaller than the share of aid in disposable income which poor families receive in developed countries. Correspondingly, the implicit marginal tax rates are radically lower[14]. Moreover, incentive effects apply at the level of the individual, not on aggregate. On the contrary, aid can induce governments to lower taxation and hence to reduce the disincentive effects of taxation, which in Africa are high, given the narrow tax base.

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[13] This stems from the econometric work of Collier-Dollar (CD), as reported for instance in WB (1998), and Collier and Dollar (1999a, 1999b), which can be summarised as follows. Aid works well in a sound economic environment, is wasteful in a rotten economy. The gains from a more efficient allocation of aid are potentially highly significant for poverty reduction. (Less known and less stressed): while policies matter, re-allocating aid on the basis of poverty indicators produces bigger benefits than re-allocating it on the basis of policy scores.

[14] The Nordic countries is the group of countries that more sharply reduces aid in response to rising incomes. They typically start to reduce aid when per capita incomes rise above $600. And largely eliminate it above $1600. However, given the small share of their aid, some $ 3 per capita, the marginal tax rate (and the associated disincentive effects) are trivial.

A third frequent criticism on aid is that, in contrast with other developing countries, Africa and particularly SSA, receive relatively much official aid and very little private capital flows (less than $3 per capita). There is a wide consensus that the opposite would be better: more investment, less aid. Survey evidence has shown that perceived high risk, poor infrastructure and high taxation are the major impediments to higher investment in SSA countries. It is widely recognised that perceived risk will take long to recede, even if a given country improves speedily its performance (Uganda is a case in point). This is because of the slow evolution of risk perceptions and because there is a global African component in country risk, which in any case will evolve very slowly.

Hence, private investment should and can increase, but certainly at a slow pace. And well-managed aid can help to improve investment prospects. If, as it can be anticipated, the simple efficiency impact of economic reforms on growth will vane progressively, economic growth in these countries will slow down, not accelerate, as a catching-up process would require. Hence, until the requirements for sustained increase in private investment are in place, a rise in public investment is required also to sustain economic growth. Accordingly, aid needs to taper in ahead of private investment.

Aid hence needs to taper in before it tapers out in the reformed countries. In this perspective, the case for aid is not the traditional static one, of inducing policy reform in the poorest environments, but rather that of boosting public investment in sounder economic policy environments in order to keep the momentum for economic growth.

An important proviso that needs to be made at this stage is the fact that investment per se does not suffice to boost economic growth, be it public or private. As shown by Dollar and Easterly (1999), neither the aid to investment link nor the investment to growth link hold in Africa[15]. They show empirically that aid does not explain investment: Madagascar, 1965-95, for instance, would have had much higher investment if aid had gone into investment. Moreover, actual investment has been much lower than the fixed ICOR would have predicted for most countries studied, e.g. Zambia, Gabon, Guinea Bissau, Zimbawe and Mauritania. What this means is that investment efficiency matters more than its level.

They find indeed that economic policy proxy variables like the black exchange market premium[16] and the public sector balance/GDP are both significant as explanatory variables of GDP for Africa (1970-92) whereas the ratio of investment on GDP is not. The economic policy distortions induced by foreign exchange market distortions and high deficit budgets in that period could help to explain why investment has not been productive in Africa. When it is argued that aid is needed to support economic convergence in countries in a process of reform, the good quality of economic management hence needs to be stressed once and again, as without it the claim does not hold.

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[15] The approach that aid is needed to boost investment and hence economic growth has been very popular for various decades. This aid-financed investment approach to development has been known in the literature on development economics, among others, as the two-gap model or the financing requirement model. One of its key analytical instruments has been the fixed incremental capital output ratio (ICOR), often set at 4 (e.g. an investment ratio of 20% would be required to reach a GDP growth of 5%). It is argued here that this mechanical approach is flawed.

[16] Ratio between the exchange rate in the black market and its official value.

A fourth issue concerning the efficiency of aid has to do with its volatility. As a source of budgetary funding, aid is often seen as much volatile. First, because bilateral aid is subject to the political agenda in the donor countries, which in turn depends on the political concerns of the electorate. Second, because donor procedures for disbursement are often so cumbersome that even when funds are committed, there may be long and unpredictable lags before the funds are disbursed. These claims could explain why the IMF treats aid receipts as an exceptional financing item instead of a current one to meet a budget deficit.

However, contrary to that wide-shared view, Collier (1999) found, in a sample of 36 African countries, that on average aid is slightly less volatile than state revenue as a whole (although aid is more volatile in a few more countries individually). This is not so surprising as it could look at first instance if one thinks at the main source of tax revenue in Africa. Typically trade taxes (on export and import) account for half of total taxes and particularly exports are much volatile, as often they are concentrated in a small number of commodities with highly volatile prices. Moreover, the normalised covariance between aid and revenue is negative. This means that aid acts as a buffer to revenue shocks, tending to increase when revenue is low, what of course is a positive stabilisation feature for the budgets of aid receiving countries.

A fifth interesting issue on aid concerns its prospects for the future. The general view at present is that stemming from aid pessimism: that at the least aid is ineffective and it will continue to fall. Without coming back here into the aid efficiency issue, one has to understand why aid has been falling. At least two one-off effects have been at play thereon: first, budget retrenchment, associated with meeting the EMU budgetary criteria and the Stability Pact in Europe and the political and economic agenda in the USA; second, the end of the cold war, which led some countries to cut in aid previously aimed at securing political allegiance. In contrast, the end of the cold war brought to the number of aid recipients the former Eastern communist countries.

Whereas the two first factors are likely to have exhausted its effects on aid available for the African countries, it is likely that the financial support requests from EU accessing candidate countries may still increase. However, another element contributes for better prospects on global aid availability. This concerns the evolution of the world economy. If the current cycle of steady economic growth continues, as it can be anticipated at present, ceteris paribus more money will become available also to aid spending in the budgets of donor countries. In addition, with continued economic growth, more countries will reach the OECD level and become donors, whereas some recipient countries will need less support.

All in all, the prospects for aid availability are not probably so gloomy as the public general sentiment suggests. Aid flows could even make one up-turn. With one major proviso, which is also the main challenge in this respect. That aid is used efficiently (in the past its allocation, partly according to political agendas, did not add to its most efficient use), produces positive results and, not least, that the general perception on its effects becomes more positive. It is interesting that this takes place at a moment when research has identified the circumstances in which aid is unambiguously positive, namely a sound macroeconomic policy environment. The snag is that public perception and policy makers do not always follow research findings right away. In any case, the must for an efficient use of aid is that it be applied in reform countries with a reasonable friendly environment for a market economy.

Anyhow, the outcome of the recent Cotonou ACP-EU convention gives a sign of optimism as regards the amount of aid resources. In comparison with the eighth EDF funds, the resources allocated at the new convention have been kept in real terms. Moreover, in practice more money becomes available, given the unspent amounts of past conventions, particularly the eight EDF. Hence, regarding the EC support, the issue can become more the existence of an adequate policy environment and absorption capacity rather than the lack of available funds. And the new convention strongly underlines, alongside the findings of recent research, the importance of efficiency and of concentrating aid on efficient resorts. Another difficult issue will remain anyhow: what to do with non-performing countries. Hopefully they could follow more and more the good examples. Africa is in much need of both things.

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